

PROGRAM INCOME

Posted 06/17/09

How does the NSP1 Bridge Notice impact the program income requirements for NSP1 funding?

Listed below are the primary ways that program income requirements are impacted:

- revenue generated from NSP funds and received by a private individual or developers that is NOT a subrecipient is NOT required to be returned to the grantee,
- revenue (i.e., gross income) received by a state, unit of general local government, or subrecipient that is directly generated from NSP funds is program income,
- program income received after July 30, 2013 is not required to be returned to HUD and may continue to be used for NSP-eligible activities.

If an NSP1 grantee uses both NSP1 and CDBG funds to acquire and rehabilitate a property, how do you prorate the program income and in this situation can profits be generated?

The proration is based on the amount of NSP1 and regular CDBG funds used. For example, if an entitlement community buys a property for \$10,000, rehabilitates it for \$10,000, and then sells it for \$22,000 (assuming the sale is not to an individual for use as a primary residence). The cost of acquisition and rehabilitation is paid with NSP1 funds (75%) and entitlement funds (25%). The NSP1 program income is \$16,500 (75% of \$22,000) and regular CDBG program income is (\$5,500). The profit that is subject to be returned to the Treasury is \$1,500.

Updated 03/16/09

How long do NSP1 grantees have to track program income on NSP1-funded activities?

As stated in the NSP1 Notice, program income from NSP1-funded activities is subjected to limitations and requirements based on the NSP1 activity that generated the program income.

Updated 03/12/09

Does HUD allow "debt service" as an operating expense when calculating net operating income (NOI)?

NSP1 program income includes gross income from the use or rental of real property less costs [expenses] incidental to generation of the income. Program income generated by rental projects is determined by deducting operating expenses from gross rental income. Debt service consists of principal and/or interest. Payment of principal is not a cost; it is a reduction of a liability. Interest is a cost of capital, not an operating expense. Therefore, neither principal nor

interest can be deducted from gross income for the purpose of determining program income.

However, these restrictions would apply only if the entity that owns the property is the grantee or its sub-recipient. These restrictions would not apply if the property owner were a developer, non-profit or “other entity.”

Updated 06/17/09

If an NSP1 grantee (city, county, town, state) uses NSP1 funds to acquire a foreclosed multifamily family property, sells it to a private owner and provides the owner with NSP1 funds to rehabilitate the property, is the revenue that the owner receives from the rents considered to be program income?

No, the rents received by the private owner would not be considered program income. However, if the NSP1 funds that the private owner received to rehabilitate the property came in the form of a loan, the funds would have to be repaid based on the agreed upon repayment plan with the NSP1 grantee. Further, the affordability requirements on the property would have to remain in place for the specified period of time regardless of transfer of ownership.

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If an NSP1 grantee (city, county, town, state) uses NSP1 funds to acquire a foreclosed multifamily family property, sells it to a subrecipient and provides the subrecipient with NSP1 funds to rehabilitate the property, is the revenue that the owner receives from the rents considered to be program income?

Yes, any rental income that exceeds operating income must be treated as program income and used for NSP-eligible uses.